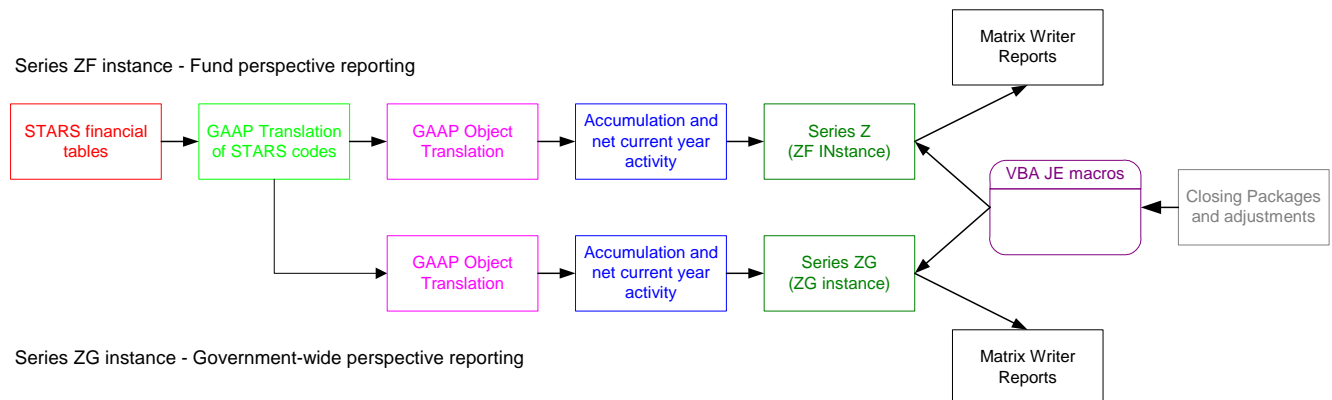


2.4 Comprehensive Annual Financial Report (CAFR)

The preparation of the annual financial statements requires the ability to capture and report the transactional activity within a fund on both a modified and full accrual basis of accounting. The master data elements within the SCEIS solution and usage of business warehouse and report writer functionality will provide the tools for this requirement. The State's current approach for preparation of the CAFR will change as the solution is deployed statewide. The change will focus more attention on reviewing and monitoring transactions during the year, rather than a single comprehensive review solely at year-end. The current approach for preparation of the CAFR requires the use of three centralized financial accounting solutions and supporting information from the State agencies. The current solution begins with the recording of daily financial activity within the Statewide Accounting and Reporting System (STARS) and progresses through a series of translations and "netting" to arrive at a series of balances to be recorded within each of the two Series Z solutions. The process has been adapted over time to include extracts from these solutions into a SQL server repository, where reports and queries are written in Crystal Enterprise. The following chart displays the flow of information from STARS, through a set of translation programs, and into each of the Series Z systems.

Exhibit 2.4-1 Current CAFR Solution

Parallel Instance of Series Z

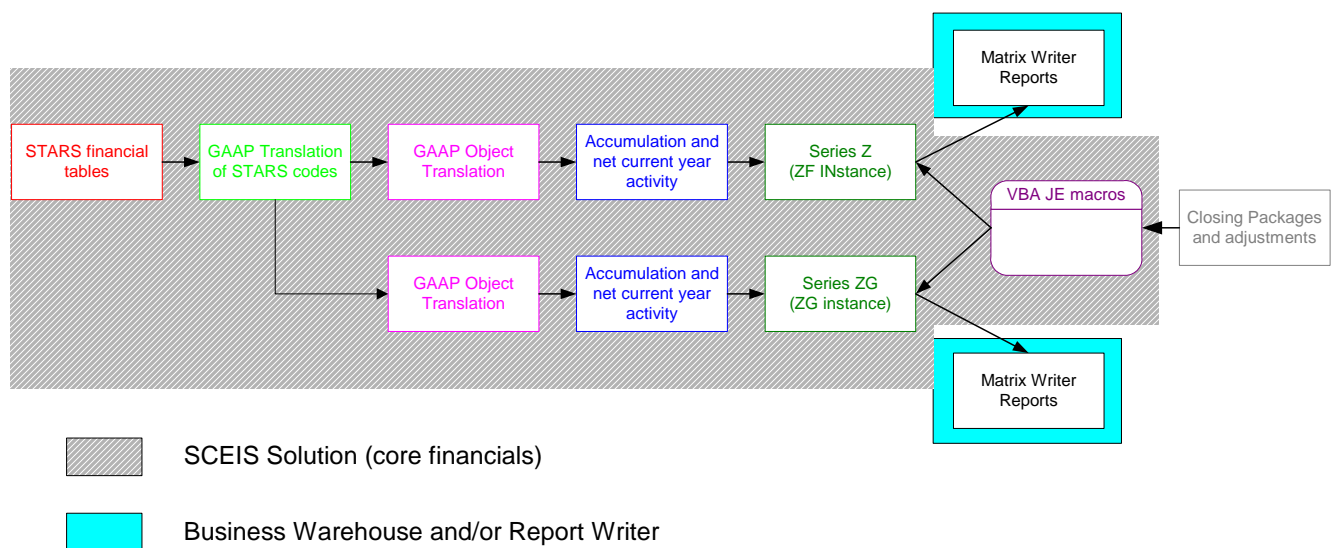


2.4.1 To-Be Strategy and Approach

The implementation of the SCEIS solution is planned to replace the use of the STARS and Series Z systems. The SCEIS solution will receive the daily transactions electronically that are currently passed from the agencies to STARS. A translation program, for non-implemented SCEIS agencies, will be developed to convert the agencies' transactions from the STARS format and

elements to the SCEIS solution. The reports required for analysis and preparation of the CAFR will be developed using a combination of the Report Writer and/or Business Warehouse tools within the SCEIS solution. The translation currently performed after extracting the data from STARS will be managed through the use of “Groups” and “Sets.” Groups are included in most master data elements as a tool for accumulating the individual items for rollup or summary reporting. Sets are logical groups of specific master data elements or ranges of elements. The following exhibit overlays the SCEIS solution in place of the STARS and Series Z components.

Exhibit 2.4.1-1 Recommended CAFR Solution



Balances within STARS will be converted at the time of initial central government implementation. The STARS data elements will be cross-walked to SCEIS elements and a conversion program developed to load the “beginning” balances (end of year in STARS) for the SCEIS solution. The conversion will post the transactions in period 12 of fiscal year 2006. In order to start fiscal year 2007, the standard balance carryforward programs will be executed in the SCEIS solution to bring the balances from fiscal year 2006 to fiscal year 2007 as beginning balances. The State will continue to prepare the Fiscal Year 2006 CAFR using Series Z (both ZF and ZG solutions). The ending balances within the Series Z solutions will be manually loaded into the SCEIS solution as of fiscal year 2006. As necessary, balance carryforward programs will be re-executed to update beginning of year balances based on the Series Z conversion activities.

Since Series Z data elements are represented at a summary level, the 'reporting only' funds and general ledger accounts may be required.

Within the various sections of the business blueprint, including the CAFR section, decisions have been made that impact the generation of the annual financial reports. These decisions and approaches have been summarized here as they relate to CAFR preparation.

- Fund values will be mapped from the current STARS subfund
- Fund Groups will be established by the Financial Reporting Division for CAFR preparation. The process for creating a new fund master record will include assignment of the fund to a fund group (GAAP Fund Group). The Financial Reporting Division will communicate the assignment as part of the setup.
- Fund Type information is contained on the fund master record. The fund type is an attribute of the master record. Attributes on the master record will not be captured on detail transactions.
- Separate document types have been recommended for the setup and payment of Inter-Departmental Transfers (IDT). Both the accounts receivable and accounts payable documents will use separate IDT-based document types.
- The split processor splitting function will pass the partner fund information.
- For specific document types, partner fund may be a required field.
- Transfer general ledger accounts will be established to ensure that revenues or reductions in revenue are identified appropriately in funds management while the general ledger account may be grouped differently for financial reporting purposes. This represents only one type of item that has financial reporting impacts. Other items will continue to be identified and resolved as the closing packages are reviewed and analyzed by the project team.
- Customer and vendor reports will be generated to match IDT transactions where one part of the entry has been created without the other side. That is, the accounts receivable is established without a matching accounts payable liquidation.
- Group functionality and Set functionality will be reviewed by the project team as part of building the report specifications for the CAFR reports. Fund type will not be used as CAFR report accumulators.

- Series Z transaction balances are at a GAAP fund level. In order to subdivide the balances down to a lower level (subfund), the agencies will need to provide supporting information for the break-down.

2.4.2 Implementation Transition

As the SCEIS solution is implemented statewide, the level of information required from the individual agencies will be reduced. Until all agencies are converted to the SCEIS solution, closing package information will continue to be collected by the Office of the Comptroller General – Financial Reporting Division. The information contained in the closing packages will be accumulated, translated (as appropriate), and entered into the SCEIS solution by the Financial Reporting Division.

Agencies implementing the SCEIS solution may be required to provide less information in the closing packages due to the level of information posted in the SCEIS solution. The transactions in the solution will be recorded on a full accrual basis (in most cases) with corresponding entries to account for the modified accrual reporting requirements. Since STARS records transactions on a mostly cash basis of accounting, a significant level of effort is required to convert the information to modified and full accrual in the Series Z solutions. This will be reduced significantly with the SCEIS implementation. The following section identifies some of the key changes that can be expected within the closing packages to reduce the level of effort required by agencies at year-end.

2.4.3 Closing Package Impacts

Closing packages are required by most agencies during the preparation of the year-end financial statements. Agencies not completing closing packages are generally lump-sum agencies or agencies where their financial statements are prepared separately and reported back to the State. The closing packages include a series of questions and balances required to isolate the accounting impact for both modified and full accrual purposes. As GASB 34/35 was issued, the basis of accounting changed for preparation of the statewide financial statements. Information was still required based on the operating basis of accounting (modified accrual for some and full accrual for others); however, the GASB statements required the preparation of financial statements on a full accrual basis for the entire reporting entity (statewide). This change in the reporting requirements caused a revamping of the closing packages and the information required from the agencies. Through the implementation of the SCEIS solution, this level can be reduced from its

current efforts. The following exhibit identifies the individual closing packages and how the SCEIS solution can serve to reduce the agencies level of effort required for completion.

Exhibit 2.4.3-1 Summary of Closing Package Changes Anticipated

Closing Package	Changes Anticipated
2.0 Master Closing Package	For agencies that have implemented the SCEIS solution, the questions appearing on the master closing package will change to reflect the different level of data required for the subsequent sections.
3.1 Cash and Investments Closing Package	This section will not be significantly impacted by the SCEIS solution. Agency bank accounts may be managed on the SCEIS solution and therefore reduce the level of information required however escrow and other financial institution data will likely need to be identified.
3.2 Tax Revenues Closing Package	Tax systems within specific agencies may be interfaced into the SCEIS solution. The level of the interfaced data will determine the extent to which the closing package section is reduced. For a fully interfaced tax solution, reclassifications between short-term and long-term as well as allowances for doubtful accounts may be the only information required on a closing package. This assumes tax receivable and payable activity is interfaced at a summary level. It is expected that information related to tax refunds payable will not be captured in the SCEIS solution and therefore would need to be provided within a closing package.
3.3 Grant/Contribution Revenues Closing Package	Information on the closing package relating to expenditures, receivables and payables for grants and contributions will be captured within the SCEIS solution. Reclassifications may be required for deferred revenue as well as reclassifications between short-term and long-term receivables. Agencies will need to provide information relating to eligibility requirements.
3.4 Miscellaneous Revenues Closing Package	Billing and collection systems within specific agencies may be interfaced into the SCEIS solution. The level of the interfaced data will determine the extent to which the closing package section is reduced. Certain systems that receive funds from external sources may fully interface the receivable and revenue transactions. Where the system is fully interfaced, information on reclassifications between short-term and long-term receivables and allowances for doubtful accounts may be required. Others may be required to complete the entire package.

Closing Package	Changes Anticipated
3.5a Loan Receivables Closing Package	Currently, loans are not recorded in STARS as receivables. The implementation of the SCEIS solution will allow for the loans to be recorded as receivables at a summary or detail level and therefore reduce the efforts required within the closing package section. Information on reclassifications between short-term and long-term loans as well as identification of any allowances for doubtful accounts may be necessary.
3.5b Refund Receivables Closing Package	Refunds of expenditures should be recorded as receivables at the time they become known for agencies that have implemented the SCEIS solution. Efforts will be required to review the aging of the receivables and determine the appropriateness of allowances along with reclassifications between short-term and long-term receivables.
3.6 Inventory Closing Package	Inventory balances will be managed and tracked in the SCEIS solution. Certain agencies currently maintain a separate inventory planning system that may or may not be replaced by the SCEIS solution. Where the solution has replaced those systems, the effort required will be reduced.
3.8 Capital Assets Overview Closing Package	Certain information may continue to be required to confirm the transactions processed in the SCEIS solution.
3.9 Capital Assets and Accumulated Depreciation Closing Package	This closing package section can be generated within the SCEIS solution and may be eliminated for agencies implementing the SCEIS solution. Additional care throughout the year for classification and recording of assets will be required to allow for the SCEIS solution reports to be accurate.
3.10 Capital Assets Additions Closing Package	Standard reports are available within the SCEIS solution to accumulate asset additions based on transactions processed during the year. Since the information is available within the SCEIS solution, this closing package section may be eliminated for agencies implementing the SCEIS solution.
3.11 Capital Assets Intra-State Transfers Closing Package	Information is available on asset transfers within the SCEIS solution. This closing package section may be eliminated for those agencies implementing the SCEIS solution.
3.12 Accounts Payable Closing Package	The accounts payable closing package focuses on amounts that represent liabilities to the State as of year-end, however are not recorded on the State books by year-end. These amounts are setup as accruals within the financial statements. The requirement for this information should be reduced for agencies implementing the SCEIS solution. The payables for goods and services will be recorded in the appropriate period based on transaction postings. Amounts not paid by year-end, can be reported upon by using invoice date information in the subsequent periods to year-end. For agencies not on SCEIS, retainage amounts will be accumulated offline. This information will be communicated by way of a closing package.

Closing Package	Changes Anticipated
3.13 Litigation Closing Package	None expected.
3.14 Grant Disallowances Closing Package	None expected.
3.15 Claims Closing Package	None expected.
3.16 Miscellaneous Loss Liabilities, Loss Contingencies, and Commitments	Loss liabilities and commitments can potentially be reduced based on the data recorded in the SCEIS solution. The loss contingencies may occur based on future events and therefore are not expected to be recorded. A closing package will still be needed.
3.17 Compensated Absences Closing Package	None expected (until HR/Payroll implemented)
3.18 Interfund Payables Closing Package	The information for interfund activity will change during and after the complete implementation. Currently, no information on interagency receivables and payables are captured in the STARS. As agencies within interfund receivable activity are implemented, data supporting the offline payable will need to be captured. As all agencies are implemented, the information provided can be reduced. The SCEIS solution is being configured to utilize a combination of document types and vendor/customer information to support the recording and liquidation of interdepartmental payable and receivables.
3.19 Operating Leases Closing Package	None expected.
3.20 Operating Leases - Lessor Closing Package	None expected.

Closing package transactions will be entered manually or uploaded as general ledger postings (journal entries) into the SCEIS solution. The entries may include adjustments to balances provided by agencies that have not implemented the solution yet, reclassifications or accruals for systems not replaced by the SCEIS solution, or agencies not on the system and preparing separate financial statements. The entries will be posted in one of the four ‘special’ posting periods (i.e. 13–16) and may require an automated reversal in the next fiscal year.

2.4.4 Master Data/Configuration Supporting CAFR Preparation

To support the preparation of the CAFR, data elements identified as master data as well as document types and other configuration will be used. The following master data elements have been identified to support development of the CAFR. These data elements would be summarized through the use of groups and/or sets as discussed previously.

Exhibit 2.4.4-1 Master Data Used in CAFR Preparation

Master Data Element	Usage in CAFR Preparation
Business Area	Defines agencies to be included or excluded from CAFR reports. Can be used to develop separate agency level financial statements.
Fund/Fund Group	Fund groups will contain a rollup of fund ranges or values for presentation and selection on the CAFR reports. Fund groups will either be accumulated further or placed in specific columns on the reports.
Functional Area	Functional area will be used to report on the Statement of Activities.
General Ledger Account	General ledger accounts will represent the specific items to be accumulated or identified for each report. General ledger accounts may be included or excluded based on ranges and values used to support the basis of accounting.

Business Area

Business area has been defined to represent the current “agency” code within STARS today. The agency codes will be crosswalked to the business areas. The business areas for most agencies would be defined as the three-digit agency code plus zero. Some agency codes may be adjusted in order to align the agency within the proper group of agencies. Most agencies will not change. Certain state organizations are included within the CAFR based on the reporting entity relationship. These organizations will not process their activity through the SCEIS solution. In these instances, business areas will need to be established to allow for the entry and reporting of offline organizations.

Fund

Fund allows for the identification of the funding source used to support specific activities. The fund value in STARS is referred to as ‘subfund’ and represents a higher-level rollup than the level managed by each agency within their financial system. The individual fund values will be accumulated through the use of fund groups. Fund groups involve establishing a group name and include individual funds or ranges of funds for reporting purposes. Fund groups are not used in transaction processing and can be changed or adjusted as required for reporting.

Fund groups are alphanumeric values that can represent ranges or individual funds or both. The following details have been proposed to be represented within the structure of the fund group:

- Government-wide group

- Fund group (Fund type)
- Budget type
- Individual fund
- Major/Non-Major identification

Functional Area

Functional area has become the key element to support accumulation of revenues and expenditures. The functional area will be defined as agencies are implemented. For the initial central government implementation project, the functional area will be defined by the STARS mini-code values used today and will be expanded during each agency implementation. Conversion activities, reversible year-end closing entries, and pre-implementation transactions may utilize a single functional area for each agency. These transactions are accumulated for the agency but will be reversed the following fiscal year. Others are needed for balance sheet only entries and therefore functional area is not used.

General Ledger Account

The general ledger account will be used to support the classification of revenue, expenditure, operating transfer, asset, liability, and equity (fund balance and net asset) accounts. Each transaction posting into the SCEIS solution will include a general ledger account. The initial draft of the general ledger account structure has been subdivided into segments to include:

- Account type
- STARS major object
- STARS minor object
- Agency detail, as needed

Exhibit 2.4.4-2 Configuration Supporting CAFR Preparation

Configuration Item	Usage in CAFR Preparation
Document Type	Interfund Payables & Receivables Special document types have been identified for capturing the interdepartmental transfer (IDT) activity for the State. The document types will be established for the billing as well as for the payable components of the activity. CAFR Adjustments

Configuration Item	Usage in CAFR Preparation
	In order to separately identify, restrict, and reverse, separate document types for CAFR adjustments will be established. One type will be created for off books agencies (submitting closing packages) while another will be created for standard closing package adjustments.
Special General Ledger Indicator	The special GL indicator assists the posting of the transactions by deriving a separate general ledger account than the one entered on the transaction. The special GL posts the item into the Funds Management module as appropriate for budgetary purposes but derives a separate general ledger account for posting to the GL. One example includes prepaid expenses, where the expense posts against the budget for the entire amount, however the item is recorded on the balance sheet as an asset until it is amortized.

2.4.5 Example Transaction Processing Supporting the CAFR

As noted above, the preparation of the CAFR will be accommodated through the usage of groups and sets from the general ledger activities. Each posted transaction in the SCEIS solution records an entry in the general ledger. The CAFR entries posted to the general ledger will support both modified and full accrual reporting. In order to understand the accounting process, an example of how a fixed asset is acquired and depreciated is included below.

Exhibit 2.4.5-1 Sample CAFR Transaction Assumptions

Assumption	Detail
Asset Class	Office Equipment
General Ledger Accounts	Equipment (Modified) Accounts Payable Capital Outlay – Equip (Modified) Inv in GFA – Equip (Modified) Unres FB – Capital Outlay Equipment (Full) Equipment (Full Contra) Depr Exp – Equip (Full) Acc Depr – Equip (Full) Unres Net Assets – Deprec
Asset Cost	\$12,000
Useful Life	2 Years
Monthly Depreciation	\$500

Exhibit 2.4.5-2 CAFR Entries Example

		Equipment (Modified) - GL 1				Cash - GL 2			
X1	A	\$	12,000				\$	12,000	A X1
		Capital Outlay – Equip (Modified) - GL 3				Inv in GFA – Equip (Modified) - GL 4			
X1	B	\$	12,000				\$	12,000	B X1
		Unres FB – Capital Outlay - GL 5				Unres Net Assets – Deprec - GL 6			
X2	D	\$	12,000			X2 D	\$	500	
		Equipment (Full) - GL 7				Equipment (Full Contra) - GL 8			
X1	A	\$	12,000				\$	12,000	A X1
		Depr Exp – Equip (Full) - GL 9				Acc Depr – Equip (Full) - GL 10			
X1	C	\$	500				\$	500	C X1
X2	E	\$	6,000				\$	6,000	E X2

- A Acquisition of fixed asset and payment
- B Depreciation posting during June X1 - Asset Book 01
- C Depreciation posting during June X1 - Asset Book 20
- D Year-end balance carryforward
- E Cumulative depreciation posting for FYX2 - Asset Book 20

The exhibit identifies the postings related to the acquisition of the fixed asset and the subsequent depreciation in year X1 for 1 month based on the acquisition timing and then one complete year of depreciation in year X2. The following exhibits display the impact of the financial statements based on the grouping of the specific general ledger accounts for reporting purposes of year X1 and X2.

Exhibit 2.4.5-3 CAFR Example Year X1 Financial Statements

Financial Statements Year X1 Balance Sheet Governmental Fund		Stmt of Rev/Exp/Chg in FB Govt Fund	
Assets		Revenues	<u>\$0</u>
Cash [GL 2]	<u>(\$12,000)</u>	Expenditures	
Total Assets	<u>(\$12,000)</u>	Capital Outlay [GL 3]	<u>\$12,000</u>
		Total Expenditures	<u>\$12,000</u>
Liabilities	<u>\$0</u>	Net Expenditures Over Revenues	<u>(\$12,000)</u>
Fund Balance		Fund Balance Beg of Year [GL 5]	<u>\$0</u>
Unres FB - Cap Outlay [GL 3+GL 5]	<u>(\$12,000)</u>	Fund Balance End of Year	<u>(\$12,000)</u>
Total Fund Balance	<u>(\$12,000)</u>		
Total Liabilities and Fund Balance	<u>(\$12,000)</u>		
Entitywide Statement of Net Assets		Statement of Activities	
Assets		Function	Expense Pgm Rev Net Exp
Cash [GL 2]	(\$12,000)	Governmental Activity 1 [GL 9]	\$500 \$0 (\$500)
Depreciable Capital Assets, net [GL 1+GL 10]	<u>\$11,500</u>	Total Governmental Activities	<u>\$500 \$0 (\$500)</u>
Total Assets	<u>(\$500)</u>		
Liabilities	<u>\$0</u>	Net Expense	Govt Activ (\$500)
Net Assets		Net Assets Beg of Year	<u>\$0</u>
Invest in Cap Assets [GL 3+GL 4+GL 5+GL 8]	(\$12,000)	Net Assets End of Year	<u>(\$500)</u>
Unrestricted [GL 7+GL 10]	<u>\$11,500</u>		
Total Net Assets	<u>(\$500)</u>		
Reconciliation of Govt Funds Balance Sheet to Net Assets Year X1			
Fund Balance - Governmental Fund [GL 3+GL 5]	(\$12,000)		
Capital Assets			
Capital Assets [GL 1]	\$12,000		
Accumulated Depreciation [GL 10]	<u>(\$500)</u>		
Total Assets	<u>\$11,500</u>		
Net Assets of Governmental Activities	<u>(\$500)</u>		

For preparation of the fund perspective financial statements, the specific general ledger accounts relating to (Full) accrual (as identified in Exhibit 2.1.2-6) were excluded from the report. The corresponding statewide financial statements included the (Full) accrual general ledger accounts and excluded the (Modified) accrual accounts. The (Full) accrual accounts were then used as part of the reconciliation report between the modified and full accrual basis of accounting.

Exhibit 2.4.5-4 CAFR Example Year X2 Financial Statements

Financial Statements Year X2 Balance Sheet Governmental Fund		Stmt of Rev/Exp/Chg in FB Govt Fund	
Assets		Revenues	<u>\$0</u>
Cash [GL 2]	<u>(\$12,000)</u>	Expenditures	
Total Assets	<u>(\$12,000)</u>	Capital Outlay [GL 3]	<u>\$0</u>
Liabilities	<u>\$0</u>	Total Expenditures	<u>\$0</u>
Fund Balance		Net Expenditures Over Revenues	<u>\$0</u>
Unres FB - Cap Outlay [GL 3+GL 5]	<u>(\$12,000)</u>	Fund Balance Beg of Year [GL 5]	(\$12,000)
Total Fund Balance	<u>(\$12,000)</u>	Fund Balance End of Year	<u>(\$12,000)</u>
Total Liabilities and Fund Balance	<u>(\$12,000)</u>		
Entitywide Statement of Net Assets		Statement of Activities	
Assets		Function	Expense Pgm Rev Net Exp
Cash [GL 2]	(\$12,000)	Governmental Activity 1 [GL 9]	<u>\$6,000 \$0 (\$6,000)</u>
Depreciable Capital Assets, net [GL 1+GL 10]	<u>\$5,500</u>	Total Governmental Activities	<u>\$6,000 \$0 (\$6,000)</u>
Total Assets	<u>(\$6,500)</u>		
Liabilities	<u>\$0</u>	Net Expense	Govt Activ (\$6,000)
Net Assets		Net Assets Beg of Year	<u>(\$500)</u>
Invest in Cap Assets [GL 3+GL 4+GL 5+GL 8]	(\$12,000)	Net Assets End of Year	<u>(\$6,500)</u>
Unrestricted [GL 7+GL 10]	<u>\$5,500</u>		
Total Net Assets	<u>(\$6,500)</u>		
Reconciliation of Govt Funds Balance Sheet to Net Assets Year X2			
Fund Balance - Governmental Fund [GL 3+GL 5]	(\$12,000)		
Capital Assets			
Capital Assets [GL 1]	\$12,000		
Accumulated Depreciation [GL 10]	<u>(\$6,500)</u>		
Total Assets	<u>\$5,500</u>		
Net Assets of Governmental Activities	<u>(\$6,500)</u>		

Reporting

The reports required for preparation of the CAFR will include specific financial reports as currently produced within the Series Z (ZF and ZG) solutions used by the Office of the Comptroller General. Additional queries will be necessary for analysis of specific account activity. For each of the reports required, custom Report Writer reports or Business Warehouse reports will be developed.

Exhibit 2.4.5-5 Sample CAFR Reporting Needs

Report Name	Description	Standard Report/ InfoCube
Statement of Net Assets	This report provides the balance sheet for the annual financial statements on a statewide basis using the full accrual basis of accounting.	Custom Report
Statement of Activities	This report provides the revenue and expenses and changes in net assets for the annual financial statements on a statewide basis using the full accrual basis of accounting.	Custom Report
Balance Sheet – Major Funds – Governmental Funds	This report supports the modified accrual basis of accounting and includes columns for each major fund and a total column for the non-major funds.	Custom Report
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	This report supports the modified accrual basis of accounting and includes columns for each major fund and a total column for the non-major funds.	Custom Report
Reconciliation of Governmental Funds to Net Assets	This report reconciles the balance of governmental funds from the Balance Sheet – Governmental Funds to the Statement of Net Assets.	Custom Report
Budgetary Comparative Schedules	Financial statements displaying the budgetary basis of accounting used by the State. The report includes the original budget, the final budget, the actual balances, and the variance of the final budget and actual balances. This report will be generated using Funds Management information.	Custom Report

The CAFR includes a number of other reports and schedules that are either included as part of the general financial statements, supplementary information, or footnotes. The above listing was not intended to include all related reports. Each report and disclosure required will require a custom report. A comprehensive listing will be defined with the Financial Reporting Division during the Realization phase.

The reports identified above would require custom development. The project team will analyze the best approach for development of the CAFR reports during the Realization activities. It is recognized that the Central State Financial Reporting Division currently utilizes a combination of Crystal Enterprise reports and Matrix Writer (Series Z report writer) to produce the information and CAFR components. The Crystal Enterprise solution can be used for the development of reports from the Business Warehouse. To utilize this function, the Crystal Connector would be required. Acquiring a license for Crystal Connector will be included in the evaluation of the reporting options by the SCEIS team during the next phase.

